

**TASK ORDER PROGRESS
AND COST REPORT**

**LOCAL GOVERNMENT
REFORM PROJECT**

CROATIA

APRIL - JUNE 2001

Prepared for



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**TASK ORDER PROGRESS AND COST REPORT
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PROGRESS REPORT

In June 2000, USAID contracted the Urban Institute (UI) to implement a three-year Local Government Reform Project (LGRP) in Croatia. The project includes the following components:

- Demonstration of best practices in municipal management at pilot sites, dissemination and results replication;
- Development of local government capacity in finance and management;
- Improvement of investment opportunities;
- Support for citizen participation in local governance; and
- Strengthening of associations related to local government.

As required by Section F.5 of the Local Government Contract, below is a description of progress during the last quarter under the following task order:

Croatia Local Government Reform Project
USAID Contract No. EEU-I-00-99-00015-00
UI Project No. 06901-011-00

WORK PERFORMED APRIL THROUGH JUNE 2001

Highlights

The second quarter of 2001 saw an acceleration of LGRP activities in all areas of work. Eight local full-time staff have joined the project and Memoranda of Understanding (MOU) were signed with each of the four demonstration cities. The LGRP has intensified its work with the four demonstration cities this quarter and advanced the national policy initiative work by linking LGRP pilot activities in demonstration sites to national level institutions.

Following a series of workshops, work progressed to implement an Information management system in the cities of Osijek and Crikvenica (about 50 percent complete in each city). As part of UI's technical assistance in municipal asset management, a report on the property of the City of Varazdin was completed with a full set of recommendations, as well as conducting an introductory asset management workshop. The LGRP economic development team finished the third meeting of "key stakeholders" task forces in Varazdin and Rijeka by conducting a full strengths, weaknesses, opportunities, and threats (SWOT) analysis and identifying critical economic development issues in each city.

The LGRP local government finance team met numerous times with key officials from demonstration sites to refine the financial analysis model, worked to convert the Excel based model to an Access software platform, and began data input to the FAM. The LGRP team also designed a questionnaire for banks to access the extent of lending by commercial banks and other institutions.

The LGRP also pursued several national level objectives by linking its work in demonstration sites to national level institutions. Under the economic development component, LGRP staff informed the Ministry of



Economy of its work in the area of local economic development and explored linkages with national level efforts to promote economic development. As part of the asset management component, LGRP identified relevant national level institutions for collaboration in addressing real property issues at the local level, including the Economics Institute, Ministry of Public Works, and Chamber of Economy. The LGRP work in the area of finance builds upon its collaboration with the Ministry of Finance and linkages to institutions that lend to local governments. In June, the LGRP held another meeting of the Local Government Advisory Committee (LGAC) to promote the project and provide the LGAC members with a detailed description of the LGRP.

Additionally, the LGRP was asked by the Ministry of Justice/Administration/Local Government to provide comments on several key laws that pertain to local government, including the Law on Electing Members of Representative Bodies, Law on Regional Local Self Government, and Law on Financing Local Governments. Additional comments to draft laws were made following the meeting of the LGAC, when a representative of the Ministry of Public Works asked the LGRP to comment on the draft Law on Communal Economy.

Project Management

The Urban Institute continues the process of re-engineering the Local Government Reform Project. In so doing, a new staffing plan was implemented to include the hiring of additional full-time local consultants, new (local and expatriate) short-term consultants, local subcontractors, and CEE consultants/subcontractors. For example, during this quarter, USAID/Croatia approved the hiring of additional part time local consultants, several local firms and several CEE consultants. Maris Mikelsons was promoted as the Chief-of-Party (CoP).

Peter Epstein (Deputy Director of Urban Institute's International Activities Center) continues to provide home office support to the LGRP and contributes toward technical work under the project (capital market and local government finance). Krzysztof Chmura is being considered for the position of Deputy CoP for the project while working on the public participation and economic development components of the project.

USAID/Croatia agreed that a revised LGRP work plan (and budget) will be submitted to USAID/Croatia for consideration after the task order modification is completed.

Memorandums of Understanding (MOU) between the demonstration sites and USAID/Croatia were drafted for each demonstration site. This quarter, MOUs were signed by USAID with the cities of Osijek and Crikvenica.

Local government elections were held on 20 May. Pre-election preparations and subsequent post-election coalition building process affected implementing technical assistance for the LGRP. Indeed, by the end of the quarter, the determination of who will be mayor in one of the project's demonstration sites still had not taken place. Following the elections of the mayors, cities had to constitute executive bodies, which further delayed implementation of technical assistance in all areas.

The LGRP has received numerous requests from local governments (Samabor, Rovinj, Porec, County of Istria) to participate in the project. To date, no decision has been made to add another local government to the roster of demonstration sites.

City of Osijek

Information Management: Miljenko Smit, LGRP resident advisor in Osijek, continued to implement the information management system in both Osijek and Crikvenica. Seven workshops were held to promote the cities' participation in designing the information management system. The workshops were held to determine which information was to be shared across various city departments and with the public at large. The LGRP



information management team explored methods to incorporate the asset management and finance components (asset management template and financial analysis model) of project as part of the information management system. Additionally, the LGRP met with area NGOs to explore ways databases can be integrated as part of the information management system. The “Center for Peace,” a local NGO in Osijek, is interested in exploring ways the LGRP information management system can assist them with the delivery of services it offers to the community.

Zoran Borovics, LGRP computer specialist, began work to collect information on the type of servers necessary to upgrade existing servers and accommodate the information management system in the cities of Osijek and Crikvenica. The LGRP began the procurement process after USAID/Croatia orally approved the purchase of the servers and supporting equipment.

Miljenko Smit gave a demonstration of the information management system at a meeting of the Local Government Advisory Committee in June. This demonstration included a step-by-step demonstration of the various components of the information system that will lead to implementation of technological innovation for Osijek and Crikvenica (such as establishing an intranet, interactive WWW home page, and data organization/structure using software products tailored to the City’s needs for its information system). The information management system is being implemented in Osijek and Crikvenica through a strategic process and in consultation with city officials (with some modification to address economic development needs of the City).

The LGRP finance team began preparations for implementing the financial analysis model. LGRP consultants along with city officials from the finance office began to assemble the data required as input to the FAM. Additionally, the City of Osijek requested that it receive asset management technical assistance from the LGRP. The CoP is assessing project resources in light of this request.

City of Rijeka

Economic Development: Pat Dusenbury, LGRP lead economic development specialist, along with her team, continued to assist the community of Rijeka to create an economic development strategic plan. Kzysztof Chmura was hired to work with Pat Dusenbury on the economic development and public participation components of the LGRP. Two additional workshops of the economic development “stakeholders” task force were held in the City during the quarter.

After conducting several trips to Rijeka during June, Pat Dusenbury and Kryszttof Chmura began developing guidelines for implementing an economic development strategic plan in collaboration with City staff. The economic development strategic plan process has been modified in implementation to:

1. Add an organizational/training meeting before first workshop because:

- it helps ease task force members into what appears to be a completely unfamiliar way of interacting with each other
- due to very limited familiarity with visioning or strategic planning and more investment in introducing the process was beneficial

2. Use “logframe” instead of gap analysis to develop action plans because:

- logframe requires stronger ties between planning and performance measurement

- logframe is consistent with standards of international funders such as the European Union and the World Bank

3. Add a training workshop on developing action plans because:

- logframe is a relatively complex action plan format and unfamiliar to most participants
- knowledge of logframe is potentially useful to partner cities apart from its application in the EDSP model

Economic development activities in Rijeka are mostly on schedule despite delays caused by local government elections and the ensuing uncertainty about who would become mayor. No further progress is likely until after summer vacation. The goal is to have completed economic development strategic plans by the end of October.

The economic development strategic plan task force in Rijeka used a two-step process to identify critical issues. First, the task force brainstorms the strategic issues - those that have a potential impact on its potential for achieving the desired vision for the future. Then, the strategic issues are prioritized to identify which are immediate, have a broad impact, and within the power of the task force to influence. Critical issues are expressed as questions with more than one possible answer. For example, "How can we improve the caliber of the local workforce?" The process of identifying the most promising answers occurs during the development of the action plans. Once critical issues are identified, the task force divides into working groups, one for each critical issue. Each working group is responsible for developing an action plan for its critical issue. The working groups are encouraged to identify additional members, people who are interested in, affected by, and/or knowledgeable about their critical issue.

Several economic development-planning tools have been developed during implementation of the planning process in Rijeka and Varazdin. These will be included in an economic development planning "tool kit" to be used in year-two of the project training and dissemination of the LGRP. LGRP staff took the lead in development of baseline data. The model calls for using locally available information to the fullest extent possible. An early challenge was identification of adequate socio-demographic data resources because the results of the 2001 Census are not yet available. To fill the void until the April 2001 Census data becomes available, socio-demographic data was purchased from PULS, a Croatian market and survey research firm. The local partners in government and business found this data very useful and vital the planning process. In Rijeka, a demographic analysis by a demographer at the local university provided additional information.

Economic data is more readily available. The Chambers of Economy are responsible for collecting economic data at the Zupania (county) level, and ZAP (financial clearing institution) tracks financial transactions, which can be analyzed to reveal spending patterns of firms. Finally, the project generated its own data through the business survey - LGRP staff in Rijeka administered the two-page survey instrument.

Task force members received relevant information a week before the SWOT workshop. Their packets contained the baseline data, a brief summary of the LGRP analysis of the legal framework for local governments, and the goal statement from a national economic strategy being developed. The Rijeka packet contained additional information taken from a report about city plans and achievements in infrastructure, economic development, and communal services. Coordination with other LGRP components is ongoing. Local economic development and public participation are totally integrated. Coordination with the asset management and financial analysis components should strengthen as resource adequacy issues arise in the context of developing the economic development strategic plan action plans.

Findings and recommendations center first on the lack of local capacity to implement economic development activities - strategic or opportunistic. There has been no real economic development function at the local level.



The LGRP should expand its economic development component by adding technical assistance for establishing a local economic development entity. That entity would have lead responsibility to monitor and oversee implementation of the economic development strategic plans. Second, intense interest of citizens in the information provided supports continued integration of economic development and public participation. Third, the experience in partner cities shows the need for a flexible approach that adjusts to the local situation.

Citizen Participation: At the request of chief-of-staff of the City of Rijeka, Ms. Ksenija Cule, the public participation component of the LGRP was initiated. Krzysztof Chmura, lead LGRP public participation specialist, led a meeting of the advisory group for a bankrupt paper mill in the City. The meeting was held to add the opinions of citizens residing in close proximity to the paper mill on its disposition.

The first public participation workshop was held in Rijeka (Susak neighborhood council). The aim was to gather opinions of residents on the potential use of the bankrupt paper mill. Interest in the workshop was great (with 35 persons attending). The residents were very appreciative of the initiative of the city to begin a dialogue with them and the city committed to provide potential investors in the paper an opportunity to discuss and report on the outcome of the public participation workshop.

During May, the LGRP and City of Rijeka initiated a children's contest. The contest was titled "Vision of Rijeka in 2010". Contestants were to draw illustrations of their vision of the City in the future. The final awards for best drawings were held during the economic development task force meeting with mayor of the city awarding the prizes.

Because the economic development strategy process is community-based, it is in itself a form of public participation. The link between the LGRP public participation and economic development components has been further strengthened by the first community meeting in Rijeka, which focused on an economic development issue, re-use of the bankrupt paper mill property. The LGRP staff for the two components operates as a single team, and the two activities are wholly integrated.

At the request of the City of Rijeka, the LGRP will implement a public opinion survey on a citywide basis. The LGRP initiated the process to identify a suitable consultant to design the questionnaire, and analyze the data. Additionally, the LGRP began the procurement process to identify a survey firm to administer the questionnaire. It is expected that the public opinion survey will capture information on service delivery improvements needed in the City. This information will be used by the City to better administer public services.

Financial Management/Capital Improvements Plan: Marina Kristek, LGRP finance specialist, along with other members of the finance team traveled to Rijeka to begin work on implementing the financial analysis model (FAM). The team along with City counterparts will begin data collection (assembling historical budgets and data on planned capital investments) and inputting these data into the FAM.

City of Varazdin

Asset Management: During the reporting quarter, the draft report on the property of the City of Varazdin was finalized, including a thorough analysis and priority recommendations for improved efficiency of the City's asset management.

On 12 June, an introductory asset management workshop was held in Zagreb. In attendance were representatives from all four demonstration cities as well as representatives from the Ministry of Public Works and the Chamber of Economy. In total about 30 persons attended the first in a series of asset management workshops.

The agenda for the workshop was multifaceted and included the following topics:

1. Review of contemporary asset management practices
2. City property: Do we know what is in our portfolios?
3. Portfolios of rental property: Do we make or lose money?
4. Getting involved in business: pros and cons
5. Property classification and property decision making

In addition, the LGRP asset management team prepared a binder with reading materials on asset management practices. These included:

1. Introduction in Contemporary Asset Management Methodology
2. Public-private Partnerships for Land Development and Redevelopment
3. Local government Asset Inventory Guide
4. Notes on Relationships between Cities and Sports Organizations: What Croatian Cities Can Learn from American Cities.

Following the introductory workshop, the LGRP received a request by the City of Varazdin to assist them with writing a model asset management ordinance/by-law. The City would like the LGRP to review and comment on the existing ordinance and make a presentation to the City Council on implementing the draft ordinance sometime in the fall of 2001.

Economic Development: The two economic development strategic plan workshops for Varazdin took place during the reporting period.

In June, two economic development task force workshops were conducted with the goal to begin developing a vision and conduct a full SWOT analysis. All members of the economic development task force were involved and very appreciative of the fact that a private-public dialogue was taking place. The LGRP team along with the Chamber of Economy collected baseline data (to include a survey of businesses, and purchased data from a local firm).

Linkages with the financial analysis and asset management components are looser. However, as the economic development planning activity moves into the action-planning phase, there is greater overlap. Financial information will be valuable input into action plan development and may act as a reality check for proposals. Coordination between economic development and financial analysis could support technical assistance to the pilot cities in evaluating and structuring implementation of incentives and other tools available for attracting foreign direct investment. Once action plans have been developed, it will be useful to:

- provide information to support including economic development impacts in criteria for prioritization of capital improvements
- provide information to support consideration of economic development impacts in the asset management plan

From the first meetings in February, partner cities have sought assistance in efforts to attract foreign investors for specific projects. Although this is not part of the existing LGRP work plan, the economic development staff - Pat Dusenbury and Visnja Mrakovic-Supec - have helped by facilitating contacts between partner cities and appropriate organizations. Specific activities include:

- Providing copies of project proposals in Varazdin and brochures from Rijeka to the US Commercial



Service Office and to the American Chamber of Commerce (AmCham) in Zagreb.

- Asking Miroslav Nicolac, Trade Specialist for the US Commercial Service, to meet with representatives from Varazdin and Rijeka to discuss how they can improve the materials they are preparing for investors.
- Finding the source of technical specifications for a bid, which were unfamiliar to the firm or the Chamber of Economy.

This assistance has been provided on a "one-off" basis and taken very little time. However, it has strengthened the relationship with partner cities significantly, particularly in Varazdin. A second benefit is to increase the local economic development capacity. The cities can now build their own relationships with the US Commercial Service and American Chamber. There is also a possibility that the work of the LGRP will bring a potential investor to the City of Varazdin.

City of Crikvenica

Information Management System: Miljenko Smit and Zoron Borovics, LGRP information management specialists, continued assistance to the City of Crikvenica in establishing a comprehensive information management system. The team formed two task forces; one for information management and the other for developing the information management system to serve economic development potential of the area. The organization structure of the information system was determined through the task force and work began on establishing the hardware/software requirements of the system. The computing environment in Crikvenica will be upgraded by the LGRP with new hardware (server) and software to meet the demands of the information management system.

Financial Management System: The LGRP finance team traveled to Crikvenica on several occasions to begin work with City staff to gather the necessary data for input to the financial analysis model. The team will work with the city staff to coordinate data input and ensure the integrity of the data. Additionally, the LGRP finance team worked with the City staff to design a preliminary agenda for the upcoming financial management training workshops.

National Policy Initiative

The Association of Cities and Municipalities: Maris Mikelsons, LGRP CoP, completed extensive planning and training design for an April 2001 study visit to Denmark for 8 government representatives and the Association of the Cities and Municipalities. World Learning implemented the study tour by providing logistical support.

The study tour training addressed several main objectives:

1. To demonstrate how service delivery is organized in other cities to increase efficiency and effectiveness. The training exposed participants to alternative metropolitan area models of service delivery in West Europe, including decentralized units, local/regional authorities, inter-municipal cooperation, and contracting out.
2. To expose participants to alternative organizational models of local government associations in Western Europe.
3. To expose participants to laws that govern inter-local government cooperation for public service delivery.
4. To help facilitate communication between central and local governments of Croatia.



Review of the Legal Framework Related to Local Government (Diagnostic): Following the meeting of the Local Government Advisory Committee (LGAC), Juliana Pigey and Maris Mikelsons met individually with members of the Committee to discuss their information/analysis needs. In follow up meetings on the Review of the Legal Framework, the most discussed issue among members of the LGAC was territorial reform.

The Urban Institute/LGRP received a request from the Ministry of Public Works to comment on the draft Law on Communal Economy. This request was followed by submission of extensive comments by the LGRP team. Additionally, the LGRP conducted an analysis of the draft Law on Regional Local Self Government and the final version of the Law. This analysis revealed that eight articles were modified or changed to reflect the comments submitted by the LGRP.

Related to the issues surrounding the draft Law on Communal Economy are changes proposed by both the LGRP and Fiscal Reform Project related to the communal fee. The two USAID-sponsored projects collaborated on providing advice to the Government on changing the communal fee to a tax (non-earmarked tax).

CLC Decentralization Project: The Decentralization Project submitted a written request to the LGRP to collaborate on the establishment of field offices. The field offices would promote information exchange among local governments and the two projects, as well as in assisting with dissemination of information to local governments. The request is currently under review.

Financial Management: The finance team was occupied with preparing the financial analysis model (FAM). A short-term consultant (computer programmer) was hired to convert the FAM from Excel software to Access software. Additionally, Peter Epstein and Juliana Pigey worked to format the output data of the FAM so that local government mayors can easily interpret the results of financial analysis.

Economic Development at the Local Level: Maris Mikelsons, Krzysztof Chmura and Visnja Mrakovcic attended the World Bank sponsored presentation of the report of "Administrative Barriers to Economic Development in Croatia". At the presentation, the LGRP team met with the Assistant Minister of Economy to explore linkages with the economic development work under the LGRP at the local level and the plans to implement a new economic development strategy at the national level. Additional meetings with the Assistant Minister followed.

Association of Cities and Municipalities: The national Office for Cooperation with NGOs is interested in promoting relationships between NGOs and local governments. In this regard, they would like to develop a relationship with the Association of Cities and Municipalities through the LGRP. Maris Mikelsons met with head of the Office to work out a strategy on how assistance could be best directed to the Association and facilitated by the LGRP.

SIGNIFICANT FINDINGS AND DELAYS

Findings of individual studies and meetings are outlined in the program activities section above. No significant delays were encountered.



WORK PLANNED FOR NEXT REPORTING PERIOD

A strong team of experts has been assembled to work on the financial component of the LGRP. This team includes both Croatians and expatriates. To date, the LGRP has focused on dissemination of the financial analysis model's capabilities through national level institutions (Croatian Bank for Reconstruction and Development, Ministry of Finance, Economics Institute, and Commercial Banks). This dissemination effort will be followed by implementation of the financial analysis model in demonstration cities along with training on financial management practices (Capital Investment Planning, forecasting, and budgeting). The LGRP plans to add another consultant to their roster of experts working in this area to supplement training for the demonstration sites. Additionally, more work will be devoted to linking the capital markets with local government finance (through implementation of the bank questionnaire) and access to lending institutions for specific investment projects in demonstration sites. The LGRP plans to implement a training workshop to accompany the installation of the FAM in all demonstration sites.

The summer hiatus will only partially affect the implementation of technical assistance in all demonstration sites. For example, work on the information management system will not be affected by the holiday season since upcoming activities (like the installation of upgraded servers) do not rely on local government staff to any great extent. However, work in the area of economic development will slow since it relies on members of task forces to meet on a regular basis. Planning for asset management activities will rely on a more strategic approach to include seminars on related topics and developing a plan to implement the asset management model in Varazdin.

Work on the national policy initiative will continue through the summer. The LGRP staff will further explore ways to bring issues at the local level to the attention of national level institutions. Additionally, a study will be undertaken to explore the issues of territorial reform in Croatia by drawing on case studies of territorial reform in other countries and mechanisms of collaboration among local governments to deliver public services.

The work plan for the project will be submitted during the next reporting period and will detail year-two activities of the project.

SPECIFIC ACTION REQUESTED

USAID/Croatia intends to modify the LGRP task order. To date, no modification of the task order has been received, making planning for future activities uncertain.

UP-TO-DATE SCHEDULE OF WORK

Work is proceeding on schedule. Demonstration cities have all signed MOUs and technical assistance in all areas has progressed. A work plan will be submitted to USAID/Croatia once the task order modification is in place.